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Division of Social Security

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According to Doyle...

Autumn has been a very busy season for the Division of Social Security. We hosted 18 social security coverage and reporting seminars in October across the Commonwealth. I am pleased to report that about 800 of you, representing more than 500 government employers participated in the seminars.

The DOSS staff enjoys traveling the state and, since we talk to many payroll officials and finance officers on the phone, its nice to be able to put a face with a name.

I want to thank each and every one of you who took time from your busy schedule to attend these instructional sessions. We hope the seminars were beneficial and help you in performing your job duties.

I also want to thank the representatives of the Department for Local Government and the Office of the State Auditor for helping conduct these training sessions.

One of the main reasons for the seminars is the IRS's new education and compliance effort aimed at governmental employers. The IRS believes that FICA noncompliance is high among these employers because of their unique and often confusing coverage status. The seminars were a part of the education portion of the program.

The compliance part begins when the IRS begins field audits of selected government employers. During one of the seminars, we were approached by a governmental payroll officer who had already been contacted by the IRS to set up a "visit". Should other government employers receive a similar greeting from the IRS, feel free to contact us. We will be glad to help in anyway possible.

In the meantime, the Division of Social Security hopes everyone has a happy holiday season and an IRS-free 1997.

Sincerely,

Patrick L. Doyle

Patrick L. Doyle, Director
Division of Social Security

IRS to Target Local Governments on Compliance Enforcement

The Division of Social Security has learned that the IRS has initiated a new, combined education and compliance program aimed at governmental employers.

Sources at the IRS's Washington headquarters told the DOSS that "the service is concerned about the level of social security and Medicare compliance at government employers." The IRS attributed the perceived lack of compliance to the unique, and sometimes confusing, rules governing social security and Medicare coverage and reporting for governmental employers.

The education portion of this effort includes such things as the recent series of 18 seminars across the state for governmental employers and hosted by the DOSS, creation of IRS Publication 963 (The Federal/State Reference Guide), updating the DOSS Kentucky Governmental Employer Manual and making the IRS training manual on worker classification (employee/employer relationship) available to employers.

The compliance effort will be centered around checking the records submitted by government employers. For example, the IRS can compare social security numbers on Forms 1099 and employer records to check for duplication and/or chart what should be a progressing decline in the number of Medicare exempt employees (those exempt from social security and hired prior to April 1, 1986.) These type of reviews can be done via the IRS databases without the need for on site audits.

On site visits and review of governmental employer payroll records will still be an important tool for the IRS. For this reason, **it is imperative that governmental employers have a copy of their Section 218 agreement on hand.** The Section 218 agreement details the social security coverage and any exemptions that apply to your employees. If an entity cannot locate its 218 agreement, a photo copy can be obtained by contacting this division (502/564-3952).

The DOSS will provide more information about this IRS initiative as it becomes available.

EFTPS Update

Employers Get Revised EFTPS Information

An acknowledgment letter and an explanation of the delay in required tax deposits via the Electronic Federal Tax Payment System until July 1, 1997 was sent to over 1.2 million employers beginning Oct. 15. The letter showed the employer's current status regarding EFTPS enrollment and acknowledged whether or not the Treasury Financial Agent charged with processing enrollment forms has received an enrollment form from the employer.

Enrollment confirmation packages have been sent to those who have already sent in enrollment forms to be processed, beginning Oct. 21. This packet contains a cover letter and a payment instruction booklet. Employers who enrolled the earliest will receive their confirmation packet first. A personal identification number will be sent to enrolled participants in a separate mailing.

Proposed Rule Changes for EFTPS

The Department of Treasury has proposed that financial institutions be charged a late fee for lost value of funds if they are found to be late in transmitting EFTPS transactions to the government. Treasury's Financial Management Service seeks to place liability for errors in electronic tax payments "on the party making the errors." To do this, financial institutions would be required to authorize Federal Reserve banks to charge interest to reserve accounts under liability circumstances if such financial institutions process transactions under any one of the allowed Electronic Federal Tax Payment System methods.

The interest provision, according to the proposal, "serves the dual purposes of encouraging financial institutions to follow efficient procedures, and of recovering the value of the funds for the government."

Other responsibilities of financial institutions processing EFTPS payments have also been proposed. They include: assisting taxpayers in enrolling, initiating and responding to Automated Clearing House prenotification entries; processing both ACH and/or same-day transactions; and providing a transaction trace number (for ACH Credit) to the taxpayer upon request as evidence the taxpayer successfully initiated a tax payment.

EFTPS vs. TAXLINK: New Features

Most of the early TAXLINK participants were payroll professionals like yourself. These people have made a difference in the final system all of us will use. Some of the new enhancements within EFTPS were the result of these people's suggestions. For example, the EFTPS highway includes: (1) an option to "warehouse" payment; (2) Windows® based software for Automated Clearing House Debit payments; (3) automated enrollment (in development); (4) the use of multiple bank

per EIN with the ACH Debit process; and (5) the allowance of all types of tax payments (with individual payments at a later date).

For those who have enrolled in EFTPS for the ACH Debit process but later decide to use ACH Credit, there is no need to reenroll. Employers may select different deposit options for different tax types.

Depositors currently using TAXLINK will need to reenroll into EFTPS. This is much easier process with the single-sheet Form 9779. A treasury or bank official will be needed to verify the ACH routing number under the ACH Debit option, but this is streamlined under the new system, compared to TAXLINK.

The EFTPS Highway: Arriving Safely

As you begin converting to the EFTPS deposit process, remember to build a fail-proof depositing system for your organization. The following steps may be helpful in achieving a fail-proof system:

- » Enroll early and communicate to all in the organization who make tax deposits.
- » Review the confirmation material for accuracy and use money to test the system prenote process. Confirm that deposits pass the EFTPS validity checks.
- » Set up a check within your company to confirm early in the day that your deposit was made timely and debited or credited from your account.
- » Create and test a backup depositing plan in case of system failure. There is a same-day settlement solution with EFTPS, and details are included with the confirmation packet. This should also be tested with money. Check cutoff times with your bank to ensure they are within compliance with early EFTPS cutoff times. Get this information in writing and check with IRS to verify timely posting of same-day settlements.

Having enrolled and tested all phases of EFTPS, you can congratulate yourself on having built a safe depositing process for your organization.

The Commonwealth of Kentucky does not discriminate on the basis of race, color, national origin, sex religion, age or disability in employment or the providing of services and will provide, upon request, reasonable accommodation including auxiliary aids and services necessary to afford individuals with disabilities an equal opportunity to participate in all programs and activities.

Registration for On-Line W-2 Filing in December

Employers who are interested in filing W-2 reports electronically this year are urged to register for the Social Security Administration's Online Wage Reporting Bulletin Board Service (OWRBBS). New filers are required to complete a onetime registration process in order to use the OWRBBS to transmit W-2 data directly to SSA from a personal computer. Online registration for tax year 1996 began on December 1.

While the SSA will be expanding its OWRBBS service each year, early registration is encouraged because space is limited. More information is available from the OWRBBS system operator at 410/966-5503.

IRS Offers Training Material to Governmental Employers

Material used by the Internal Revenue Service to train its tax examiners on determining worker classification is now available to employers.

Worker classification (the employee/employer relationship) is based upon a common law standard for determining whether the worker is an independent contractor or an employee. That standard essentially asks whether the employer has the right to direct and control the worker.

The training material can be obtained from the IRS by calling 202/622-5164 and asking for The Employee or Independent Contractor Training Manual No. 3320-102.

We're on the Web!!

Material from the Division of Social Security is now available on the internet at:
<http://www.state.ky.us/agencies/finance/divss.htm>

- **See the division's quarterly information brochures for the latest social security and medicare coverage and reporting information. These brochures are designed for use by governmental payroll, personnel and financial employees.**
- **View informational publications for the state and local governmental employer:**
 - **Kentucky Governmental Employer Manual.** A guide to social security and medicare coverage and reporting for Kentucky governmental employers.
 - **Who is an Employee?** Information on how to determine if an individual is an employee or a contractor.
 - **Employer Provided Vehicles.** Rule to be used in ascertaining the taxable value of a vehicle provided to an employee.
 - **FICA Taxes and a Cafeteria Plan.** Taxability of benefits under cafeteria plans and flexible spending accounts.
 - **Third Part Sick Pay Plans.** Coverage and reporting rules for sick or disability payments made to governmental employees.
 - **Windfall Elimination Provision.** SSA fact sheet explaining how a pension from work not covered by social security may affect social security retirement and disability benefits. This applies only to employees not covered for social security.
 - **Government Pension Offset (GPO).** SSA fact sheet explaining that the GPO's possible affect social security benefits for a spouse. This applies only to employees not covered for social security.
 - **Social Security and the Public Employee.** Information on the different benefits social security provides to the governmental employee.
 - **Medicare and the Public Employee.** Overview of medicare benefits provided to the governmental employee.
 - **Social Security Administration Offices in Kentucky.** The SSA district offices' addresses and telephone numbers.
- **E-mail questions, comments or requests directly to the Division of Social Security. We can help in such areas as:**
 - * Social security and medicare coverage of governmental employees.
 - * Wage and withholding tax reporting.
 - * Federal legislation and regulatory changes that impact social security.
 - * SSA and IRS rulings concerning social security and medicare.
 - * Corrections and adjustments to social security wages and taxes.

1997 Social Security Facts and Figures

Social Security Tax Information:	1993	1994	1995	1996	1997	1998
Employee rate	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Employer rate	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Maximum wages	\$57,600	\$60,600	\$61,200	\$62,700	\$65,400	
*Projected maximum						\$67,800
Medicare Tax Information:						
Employee rate	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
Employer rate	1.45%	1.45%	1.45%	1.45%	1.45%	1.45%
**Maximum wages	\$135,000	Total	earnings	are	taxable	
Social Security Benefit Information						
Earnings required for one quarter coverage	\$590	\$620	\$630	\$640	\$670	
Exempt amounts under annual earnings test:						
Under age 65	\$7,680	\$8,040	\$8,160	\$8,280	\$8,640	
Age 65-69	\$10,560	\$11,160	\$11,280	\$12,500	\$13,500	
70 and older	No limit	No limit	No limit	No limit	No Limit	
Avg monthly Social Security benefit for individuals	\$657	\$674	\$702	\$724	\$745	
Avg monthly Social Security benefit for couples	\$1,111	\$1,140	\$1,184	\$1,220	\$1,256	
Maximum monthly SSI benefit for individuals	\$434	\$446	\$458	\$470	\$484	
Maximum monthly SSI benefit for couples	\$652	\$669	\$687	\$705	\$726	
Annual increase in benefits	3.00%	2.60%	2.80%	2.60%	2.90%	
Government Control Employee	\$108,200	\$108,200	\$108,200	\$108,200		
Expiration of statute of limitations	4/15/97	4/15/98	4/15/99	4/15/00	4/15/01	4/15/02
Election worker exclusion	\$50/qtr	\$100/yr	\$1,000/yr	\$1,000/yr	\$1,000/yr	\$1,000/yr

FICA Tax Rates and Wage Bases

The 1997 wage base for social security withholding is \$65,400. The full wage amount is taxable for Medicare purposes.

The social security tax rate is 6.2 percent on the employee's taxable wages up to a maximum that is established by the Social Security Administration each year. The medicare tax rate is 1.45 percent on the employee's taxable wages. Medicare wages paid prior to January 1, 1994 are subject to a maximum wage base established by the Social Security Administration. The total taxable wages paid on and after January 1, 1994, are subject to the 1.45 percent medicare withholding.

Because the maximums for social security and medicare are different, Forms W-2, W-3 and 941 require employers to report social security wages and taxes separately from medicare taxes and wages. Refer to the chart above for the current and projected wage maximums.

* The maximum wages subject to social security for the next calendar year are calculated and announced by the Social Security Administration each fall. These are only estimates and are not official.

** Public Law 103-82 repealed the medicare wage base, effective January 1, 1994.